

GAO

United States General Accounting Office

Report to the Co-Chairmen
Northeast-Midwest Congressional
Coalition

April 1992

FINANCIAL AUDIT

Northeast-Midwest
Congressional Coalition
Financial Statements
for 1990 and 1989



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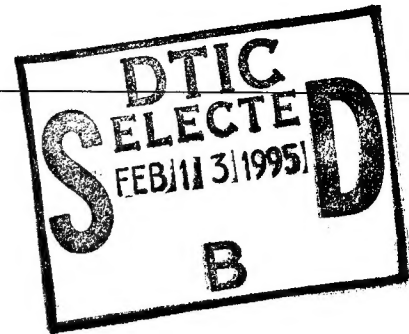
United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-233862

April 9, 1992

The Honorable Frank Horton, Co-Chairman
The Honorable Howard Wolpe, Co-Chairman
Northeast-Midwest Congressional Coalition



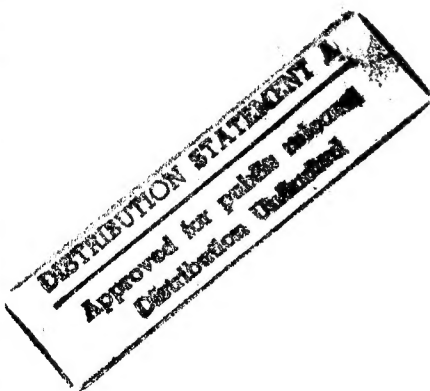
Pursuant to your request, we have audited the balance sheets of the Northeast-Midwest Congressional Coalition as of December 31, 1990 and 1989, and the related statements of operations and fund balance and of cash flows for the years then ended. We completed our audit work on August 20, 1991. These financial statements are the responsibility of the Coalition's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the activities financed by Northeast-Midwest Congressional Coalition Members and are not intended to present the financial position and results of operations of the Coalition as a whole. Thus, these financial statements do not include those items financed by funds appropriated to the Architect of the Capitol or the U.S. House of Representatives.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coalition as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

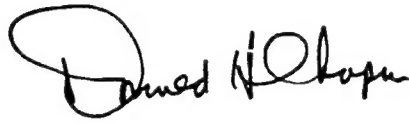
As discussed in note 3 to the financial statements, the District of Columbia is reexamining its earlier position that certain Coalition employees' salaries were exempt from the District's unemployment compensation taxes. The Coalition does not believe that it is liable for these taxes. At present, the outcome of this dispute cannot be projected because the District has not made a final decision regarding the Coalition's liability. Accordingly, no



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provision for any liability that may result upon settlement has been made in the accompanying financial statements.

This report contains our report on internal control structure and compliance with laws and regulations for the year ended December 31, 1990. It also includes the Coalition's financial statements and accompanying notes for the years ended December 31, 1990 and 1989.



Donald H. Chapin
Assistant Comptroller General

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Report on Internal Control Structure and Compliance With Laws and Regulations

We have audited the financial statements of the Northeast-Midwest Congressional Coalition for the years ended December 31, 1990 and 1989, and have issued our opinion thereon. This report pertains only to our consideration of the Coalition's internal control structure and our review of compliance with laws and regulations for the year ended December 31, 1990. Our report on internal control structure and compliance with laws and regulations for the year ended December 31, 1989, is presented in GAO/AFMD-91-2, dated November 7, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Coalition for the year ended December 31, 1990, we considered its internal control structure in order to determine our auditing procedures. Our purpose was to express an opinion on the Coalition's financial statements, not to provide assurance on its internal control structure.

The Coalition's management is responsible for establishing and maintaining an internal control structure. To fulfill this responsibility, management must make estimates and judgments that assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly so that financial statements can be prepared in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the current structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the Coalition's significant internal control structure policies and procedures into the following categories:

- receipts,
- disbursements, and
- financial reporting.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, and assessed the associated control risk.

Our consideration of the internal control structure would not necessarily disclose all of its material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We found no material weaknesses in the Coalition's internal control structure and its operation.

The management of the Coalition is also responsible for compliance with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the financial statements are free of material misstatement, we selected and tested transactions and records to determine the Coalition's compliance with certain provisions of the following laws and regulations which, if not complied with, could have a material effect on the Coalition's financial statements:

- terms and provisions of the regulations established by the Committee on House Administration and
- federal regulations on the withholding and payment of income and social security taxes.

It should be noted that our objective was not to provide an opinion on the overall compliance with such provisions. Because of the limited purpose for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Coalition has to comply.

The results of our tests for calendar year 1990 indicate that, with respect to the items tested, the Coalition complied in all material respects with those provisions of laws and regulations referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that the Coalition had not complied, in all material respects, with those provisions.

Balance Sheets

	December 31,	
	1990	1989
Assets		
Cash	\$28,354	\$8,784
Prepaid publications	430	397
Accounts receivable—dues	7,500	2,000
Prepaid computer rental	7,745	0
Total Assets	\$44,029	\$11,181
Liabilities and Fund Balance		
Liabilities		
Accounts payable—trade (note 2)	\$614	\$4,042
Accrued liabilities	4,791	2,148
Dues prepaid by Members	32,750	11,500
Total liabilities	38,155	17,690
Fund Balance (deficit)	5,874	(6,509)
Total Liabilities and Fund Balance	\$44,029	\$11,181

The accompanying notes are an integral part of these statements.

Statements of Operations and Fund Balance

	Year ended December 31,	
	1990	1989
Revenues (note 2)		
Members' dues	\$165,500	\$160,000
Clerk-hire funds	18,344	12,947
Special assessments for expenses	13,619	9,145
Tax refunds (note 4)	0	6,910
Total Revenues	197,463	189,002
Expenses (notes 2 and 3)		
Salaries and benefits	154,441	145,585
Payroll taxes	11,551	10,626
Equipment rental	9,165	12,193
Subscriptions	3,592	2,416
Office supplies	2,727	2,719
Printing	1,773	1,087
Telephone	1,354	1,293
Meetings and official functions	135	506
Miscellaneous	342	1,945
Total Expenses	185,080	178,370
Net Income	12,383	10,632
Fund balance (deficit), beginning of year	(6,509)	(17,141)
Fund Balance (Deficit), End of Year	\$5,874	\$ (6,509)

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	Year ended December 31,	
	1990	1989
Cash Flows From Operating Activities		
Cash received from Members (note 2)	\$181,250	\$157,500
Tax refunds		6,910
Cash paid to employees and service providers	(161,680)	(167,749)
Net cash provided by (used in) operating activities	19,570	(3,339)
Cash at beginning of year	8,784	12,123
Cash Balance at End of Year	\$28,354	\$8,784
Reconciliations of Net Income to Net Cash Provided by (Used in) Operating Activities		
Net Income (note 2)	\$12,383	\$10,632
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
(Increase) in assets		
Accounts receivable	(5,500)	(2,000)
Prepaid expenses	(7,778)	(39)
Increase (decrease) in liabilities		
Accounts payable (note 2)	(3,428)	(721)
Prepaid Members' dues	21,250	(500)
Accrued liabilities	2,643	(893)
Special tax assessment payable	0	(9,818)
Total adjustments	7,187	(13,971)
Net Cash Provided by (Used in) Operating Activities	\$19,570	\$(3,339)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Organization

The Northeast-Midwest Congressional Coalition is a legislative service organization sponsored by a group of Members of Congress who pool their resources to pursue common legislative goals. It operates as an extension of the participating Members' offices and coordinates their efforts for reasons of efficiency and effectiveness. Its purposes are to (1) inform its Members about regional implications of national policies and proposals and (2) influence congressional decisions regarding those issues of greatest importance to Northeastern and Midwestern states.

These statements include only the costs paid by Members. However, certain other costs of the Coalition, related to office space and utilities, are paid from legislative branch appropriations to the Architect of the Capitol and to the U.S. House of Representatives and cannot be readily determined.

On October 21, 1981, the Committee on House Administration adopted regulations and rules pertaining to legislative service organizations. These regulations provide for the following.

- Effective January 1, 1983, a legislative service organization may not use funds received as dues or through assessments to generate additional income, including income from interest-bearing accounts or time deposits.
- Effective January 1, 1983, a legislative service organization may not receive income or contributions from any source other than the Congress or its Members.

Note 2. Accounting Policies

Assets, liabilities, revenues, and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles.

The Coalition receives revenues in the following forms.

- Member dues, which the Coalition recognizes as revenue for the year to which they are applied.
- Payments of expenses on behalf of the Coalition. The Coalition recognizes the revenues and the expenses in the amount of these payments but does not account for cash receipts or disbursements. This would include what is referred to as clerk-hire funds and special assessments for expenses. Clerk-hire funds are salaries paid to Coalition staff members by the Clerk of the House on behalf of Members. These revenues and expenses are recognized as the staff members earn salary. Special assessments for expenses are bills paid directly by Coalition Members on behalf of the

Coalition rather than from dues paid to the Coalition. These revenues are recognized when an expense voucher is sent to a Member for payment.

As a legislative service organization, the Coalition is required to enter into agreements with the House Office Equipment Service for its equipment needs. These usage fees are shown as equipment rental expense.

No annual leave is accrued at year-end because the staff cannot carry over vacation leave from year to year, but must use it within the calendar year.

The financial statements for 1989 have been restated to show additional revenues, net income, and fund balance of \$2,149 (and decrease in accounts payable) for special assessments-expenses revenue recorded in 1990 that should have been recorded in 1989.

Note 3. Contingency—Taxes Payable to the District of Columbia

In September 1989, the District's Department of Employment Services informed the Coalition that it was reexamining its earlier position that certain Coalition employee salaries were exempt from the District's unemployment compensation tax. The District stated that for employee salaries paid partially with Coalition funds and partially with federal funds, unemployment taxes must be paid on the share funded by the Coalition. The Coalition does not agree with the District's claim that unemployment compensation taxes are due because it maintains that the employees in question are federal employees and, therefore, their salaries are not subject to the District's unemployment compensation tax. These differing views remain unresolved since the District has not made a final decision regarding the Coalition's liability. Accordingly, no amounts have been accrued for these taxes.

If the Coalition is deemed liable for unpaid District unemployment compensation taxes, the estimated tax debt at December 31, 1990, could amount to \$10,381. This estimate includes \$8,653, attributable to 1989 and \$1,728 attributable to 1990. The 1989 amount includes a District of Columbia refund of \$1,166, consisting of three prior quarterly unemployment compensation tax payments made by the Coalition in July and October 1987 and April 1988.

Note 4. Tax Refunds

In 1989, the Coalition received tax refunds totaling \$6,910. The refunds consisted of the \$1,166 discussed in note 3 from the District of Columbia and \$5,744 from the Internal Revenue Service for payroll tax overpayments and interest on the overpayments. The Internal Revenue Service refund related to the Coalition's pre-1987 payroll tax liability, which it settled in January 1989. The refund resulted from the Service's decision to abate interest and penalties on the pre-1987 payroll tax liability.